

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

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IN THE MATTER OF Inquiry by the	)	REGULATORY DIVISION
Montana Public Service Commission into	)	
its Implementation of the Public Utility	)	DOCKET NO. N2015.9.74
Regulatory Policies Act of 1978	)	

RESPONSE COMMENTS of BOULDER HYDRO

Most commenters did not discuss the option 2(a) and 2(b) rates, yet these rates deserve attention.

The QF-1 Option 2(a) and 2(b) rates should be discontinued.

The QF-1 Option 2(a) and 2(b) rates depend entirely on the ICE Mid-C index rate. However, the ICE Mid-C index rate is a short-term rate and should not be used as a long-term rate. Both options 2(a) and 2(b) should be discontinued.

1. One-hour rate. The Ice Mid-Columbia index and other Mid-Columbia hourly and day-ahead indexes are for contract terms that last one hour. These terms are not in line with the nineteen-month time requirement that has traditionally been used in the tariff to define long-term contracts. These index prices are simply not valid values of the market price of long-term contracts.
2. Non-firm rate. The Mid-C hourly and day-ahead indexes are clearly about non-firm energy. If the duration of price is 1 hour, then the transaction cannot be considered anything other than non-firm. To base the price of a long-term firm contract directly on a non-firm index does not make sense.
3. Hedging. The day-ahead Mid-C indexes often do not represent actual transactions—they are largely used for hedging, and they should not be used as the price of a long-term contract. They do not represent an actual transaction, so using them as an indicator of the price of a long-term contract does not make any sense.

4. Transparency. The Consumer Council and others have emphasized transparency in determining avoided costs. The mid-C index rates are not available to the public for free. Although the ICE mid-C Peak index price is available on the EIA website, the off-peak price is not, so the overall ICE mid-C price cannot be determined without an \$8800.00 subscription fee. My understanding is that although the Commission could have access if it paid the fee, the fee arrangement would not allow the Commission to make the entire rate available to the public. A rate that cannot be accessed except through a high (\$8800.00) fee should not be used as an avoided cost rate.

5. Scandal. The ICE Mid-C rate was involved in a price scandal involving Barkley traders that manipulated the price by working the hourly rate against the day-ahead rate. These traders were fined \$430 million dollars for price manipulation. This scandal is not a recommendation for the ICE Mid-C index.

6. Risk. The mid-C index prices are extremely risky. They include no top and no bottom and they include negative prices. This extreme volatility and no-limit top and bottom are not representative of long-term contracts. Northwestern Energy has moderated its opposition to these rates since the rates have gone down, but Northwestern's opposition to these rates in 2010 was vehement. See Order 6973d , Docket 2008.12.146, at 27.

## Fairness in evaluation of utility resources and QF resources.

One of the requirements of PURPA is that QFs should not be discriminated against. One interpretation of non-discrimination is that the pricing of utility resources and QF resources should be handled similarly and fairly. Using one set of rules to value utility resources and another set of rules to value QF resources is discriminatory. In the long run it is also harmful to the ratepayer. This principal about evaluation of utility and QF resources shows up often in avoided cost proceedings. Determination of utility resources costs and determination of avoided costs for QFs should, to

the extent possible, share the same assumptions and methodologies. There are several areas in the determination of avoided cost where this principal of equal treatment is central, including Carbon Costs, Capacity/Energy, and Contract Length.

### 1. Carbon Costs

In the past the Commission in determining avoided cost used RECs to determine the value of avoided carbon cost. RECS are not available for projects older than 2007.

In 2014 Northwestern proposed a new method for dealing with carbon costs when asking for approval of the dams. This new method greatly increased the value of carbon costs over and above the REC method of evaluation, and it extended the consideration of resources that qualified for carbon credits to projects older than 2007 in order to qualify the dams for carbon credits. Subsequent to this change in methodology for determining carbon credits, Northwestern filed an avoided cost case that used the older treatment of RECS for carbon costs rather than the revised method it used in the dams case for determining carbon costs. This unequal treatment of carbon costs between the dams case for the utility and the subsequent avoided cost rate case for QFs exemplifies the potential unfairness that the utility is prone to in the calculation of avoided cost. This discrepancy alone would have been sufficient reason for the Commission to reject Northwestern's proposed avoided cost rate. Had the Dams value been calculated according to Northwestern's method in its avoided cost filing, the dams would simply have not qualified for RECS and the carbon valuation would have been zero and the dams value would have been 30% less. The purchase would likely not have happened.

This example speaks to the potential for bias in the utilities calculation of avoided costs. There should be equitable treatment in the determination of resource values between utility resource and QF resources. This need for fairness extends also to other rate issues.

### 2. Capacity/Energy

Another example of fair treatment between QF and utility resources is the calculation of capacity and energy components. How to split capacity/energy is a major issue with QF resources, but it is also a major issue in the evaluation of utility resources. A utility wind resource should not be valued at twice the capacity as the QF wind resource next to it simply

because it is a utility resource. The evaluation of Capacity/Energy is a valuation problem that applies to utility resources as well as QF resources.

### 3. Contract Length.

Contract length is an additional factor that determines fairness in the calculation of utility resources and QF resources. Similar treatment should be available for both utility resources and QF resources. It does not make sense to pre-approve a 25-year rate calculation of a utility resource such as the dams, then turn around and limit QF resources to 5-year contracts. This discrepancy is exaggerated by the potential for the utility resource to be even more expensive over time, while the QF resource must deliver at the given price. The reasons for pre-approving the long-term utility purchase at a given price are similar to the reasons for awarding a 25-year QF contract.

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Boulder Hydro requests that it be included in the roundtable discussions and review being conducted by the Commission.

Respectfully submitted November 6, 2015

A handwritten signature in black ink, appearing to read "Lee Tavenner". The signature is stylized with a large, sweeping initial "L" and "T".

Lee Tavenner  
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